

OCT 1 - 2014 *A*REGULATORY DIVISION
LOS ANGELES OFFICE

September 26, 2014

U.S. Army Corps of Engineers
Los Angeles District
P.O. Box 532711
Los Angeles, CA 90053-2325**Attn: Colonel Colloton**

Dear Colonel Colloton:

Hudbay is pleased to submit a revised *Rosemont Copper Project – Habitat Mitigation and Monitoring Plan* (September 26, 2014) (September HMMP). We appreciate the continued willingness of you and your staff to evaluate opportunities to bridge the mitigation shortfall described in your May 13, 2014 letter.

As we have previously indicated, Hudbay is an integrated mining company with assets in North and South America principally focused on the discovery, production and marketing of base and precious metals. Hudbay and its subsidiaries explore for, mine and produce metals in an environmentally responsible manner, while maintaining a safe and healthy workplace.

Since Hudbay acquired the Rosemont Copper Project (Project), we have focused on significantly expanding the compensatory mitigation to respond to your May 13th letter and direction received in our meetings with U.S. Army Corps of Engineers (Corps) staff. We believe this September HMMP exceeds Corps requirements and is a robust proposal. The effort that has gone into revising the September HMMP is significant, particularly given the unfortunate reality that there is no viable in-lieu fee program within the surrounding area of the Project. The attached table highlights the differences between the revised plan and the April 2014 submission. To compensate for the 68.8 acres of impacts to Waters of the United States (WOUS) the September HMMP includes:

- A land package encompassing nearly 4,830 acres on which more than 200 acres of WOUS and more than 900 acres of riparian buffer will be restored, enhanced, established or preserved; and
- An estimated cost of more than \$48,000,000 for the proposed September HMMP. The \$48,000,000 does not include the assets that have been pledged to support an ILF project should a sponsor choose to pursue one. The additional cost associated with that element would be approximately \$4,000,000.

We appreciate that you have agreed to meet with us when your schedule allows in October. In the meantime, the HMMP is being provided to the entire review team and the Corps Project Manager, Marjorie Blaine. In our view, previous meetings that included L.A. District staff

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have produced significant progress in furthering the mitigation package and we hope that additional discussions will assist in ensuring that the requirements of the 2008 Mitigation Rule are met.

Our proposal

The September HMMP submitted includes substantial increases in the type and acreage of compensatory mitigation being provided. We have taken the Sonoita Creek Ranch plan, which offers the most restoration and enhancement credits, and significantly expanded it for this submittal. Specifically, we acquired additional property and expanded our restoration actions further up and downstream so that it now includes an additional 230 acres of Sonoita Creek floodplain that includes 18.8 acres of re-established WOUS. This equates to a 41% increase in WOUS acreage over the prior submittal for this parcel. This expansion also includes additional enhanced WOUS and buffers. We also included the Helvetia Ranch Annex North Parcels in the September HMMP, which include 939 acres of land. These 939 acres include 39 acres of rehabilitated and enhanced WOUS plus 271.5 acres associated riparian buffer.

As mentioned, the September HMMP now encompasses nearly 4,830 acres of land on which over 200 acres of WOUS and over 900 acres of riparian buffer will be restored, enhanced, established, or preserved. Per the 2008 Mitigation Rule, more than 90% of this mitigation acreage (both WOUS and riparian buffer) qualifies as restoration or enhancement. Based on the guidance provided in the 2008 Mitigation Rule, and using the mitigation ratios provided by your staff, we find that this package is sufficient to fully offset the direct loss by fill of 40.4 acres of ephemeral dry washes and the indirect effects to 28.4 acres based on a decrease in stormwater flow.

Given discussions with Corps staff during May, it appears there are a number of points where the 2008 Mitigation Rule and the South Pacific Division Mitigation Ratio Setting Checklist allow for mitigation credit but which are not being allowed for this particular Project. We would appreciate further discussion and clarification on these points, because we believe that this package, as submitted, meets or exceeds the requirements for no net loss of function and services for the region's streams under the 2008 Mitigation Rule. We have provided a Compliance Table for your convenience demonstrating compliance with the rule.

Finally, even though we believe this package fully mitigates for Project impacts, if further mitigation is necessary, Hudbay remains committed to purchasing in-lieu fee (ILF) credits, if credits are available. If credits are not available, Hudbay proposes placing funds into escrow at some multiplier of the current expected per acre credit cost to ensure monies are available to purchase credits at some later date. As a note, we are not relying on the Pantano Dam ILF project as discussed in prior correspondence but are continuing to offer the Pantano Dam assets (as described in the September HMMP and shown in the table below) to assist in the



establishment of an ILF. The creation of an ILF in this area would place the mitigation in the closest proximity to the proposed Project as well as placing the mitigation in the location most desired by Pima County.

We appreciate your consideration of this submission and look forward to hearing from you.

Sincerely,

A handwritten signature in black ink, appearing to be "Patrick Merrin". The signature is stylized with a large, sweeping "P" and "M".

Patrick Merrin
Vice-President, Arizona Business Unit

Attachments: *Rosemont Copper Project, Revised Habitat Mitigation and Monitoring Plan, Permit No. SPL-2008-00816-MB, September 26, 2014*
 Rosemont Copper Project, HMMP Cost Supplement
 Rosemont Copper Project, September HMMP Summary of Improvements and Points Requiring Additional Clarification, September 26, 2014
 Compliance of the Rosemont Copper Project Revised HMMP with Part 332 – Compensatory Mitigation for Losses of Aquatic Resources

Summary of Mitigation Offered vs Project impacts

	Total Acres	Waters of US	Riparian Buffer	Water Rights
Project Impacts				
Direct Impact		40.4		
Indirect Impact on downstream stormwater flows		28.4		
Temporal Impact from pipeline installation		1.1 ¹		
Total Project Impacts	4,454	68.8	585²	0
Temporary Impact from pipeline installation		1.1 ³		
Mitigation offered in April 2014				
Sonoita Creek Ranch	1,350	87.2	379.2	590
Fullerton Ranch	1,763	50.1	262.6	0
Davidson Canyon Parcels	545	16.0	83.0	0
Pantano Dam Parcel	2	1.0	0.0	250
Total	3,660	153.0	787.6	840
Total Mitigation Offered in September 2014 ⁴				
Sonoita Creek Ranch	1,580	103.8	305.6	590
Fullerton Ranch	1,763	50.1	262.6	0
Davidson Canyon Parcels	545	16.0	83.0	0
Helvetia Ranch Parcels	939	39.0	271.5	0
Total	4,827	208.9	922.7	590
September HMMP Increase over April HMMP	31.9%	36.5%	17.1%	
Percentage more than Project Impacts	8.4%	203.6%	57.7%	
Potential Additional Mitigation				

¹ Temporary impacts are mitigated by restoring the ephemeral washes to preconstruction contours following installation of the utilities (not counted in total Project impacts).

² Based on FEIS determination of impacts for Rosemont Project, Volume 3, Table 122 page 666

³ Temporary impacts are mitigated by restoring the ephemeral washes to preconstruction contours following installation of the utilities and are not counted in total Project impacts.

⁴ The mitigation offered specifically has over 90% of the Waters of the US and Riparian Buffer specifically being counted as restoration or enhancement. Only the Davidson Canyon Parcels have a preservation element.